

DE 03-166
PSNH Schiller Station Conversion
Testimony of Kenneth E. Traum

Q1. Please state your name, business address and qualifications.

A1. My name is Kenneth E. Traum. I am the Finance Director for the Office of Consumer Advocate (OCA), which is located at 117 Manchester Street, Concord, New Hampshire 03301. I have been affiliated with the OCA for over fourteen (14) years. My qualifications are included in Attachment 1.

Q2. What is the primary objective of your testimony in this docket?

A2. I plan to explain why the OCA doesn't support the Application for the Schiller Station conversion as proposed by PSNH with all of the risks of the conversion being assigned to its customers, not its shareholders while PSNH's stockholders will nonetheless receive guaranteed rewards.

Since The OCA believes if one accepts PSNH's assumptions on the long term value of the REC's, (Renewable Energy Certificates), that the proposed conversion of Schiller Unit 5 will be cost effective, our problems are essentially legal ones and REC valuations. Those legal issues will be laid out more completely in our briefs to be filed on October 20 but essentially they relate to whether the Legislature has given the Commission the authority to put ratepayers at risk for the costs of such a conversion.

1 **Q3. A threshold question consistent with the language of RSA 369-B:3¹ is**
2 **whether the changes PSNH is proposing be made to Schiller Station Unit 5**
3 **qualify as a “modification”?**

4 A3. According to my Webster’s Dictionary a modification is “a partial or slight
5 change in form”. While I admit I’m not an engineer, I am an accountant and
6 financial analyst and replacement of the Unit’s boiler, stack, environmental
7 equipment, type of fuel, and fuel handling at a cost exceeding 10 times the net
8 book value of the existing Unit is much more than a partial or slight change.

9 **Q 4. What is the OCA’s position, based on the OCA’s view that this is more than**
10 **just a modification of Unit 5?**

11 A4. The OCA does not believe PSNH has the legal authority to go forward with this
12 conversion but would not oppose it if PSNH’s retail customers are kept indifferent
13 to the risks of this conversion. This means that even if PSNH, in spite of their
14 response to OCA-4 (Attachment 2) which indicated a willingness to share some
15 risk, is allowed to go forward accepting the full risk and reward from the
16 conversion, a methodology must be established up front to hypothetically
17 determine what the cost of generation would have been for Schiller 5 in order to
18 have a benchmark to measure the cost to PSNH versus the cost to ratepayers.
19 This analysis could be based on the actual allocated costs from Schiller Units 4
20 and 6, as well as a clear valuation process for when/if divestiture occurs.

21 **Q5. Is this proposal by PSNH a return to the past?**

¹ “Prior to any divestiture of its generation assets, PSNH may modify or retire such generation costs if the commission finds that it is in the public interest of retail customers of PSNH to do so, and provides for the cost recovery of such modification or retirement.”

1 A5. Yes. This proposal seems contrary to the purpose of Chapter 374-F:1 of
2 “harnessing the power of competitive markets” (Attachment 3). PSNH customers
3 are currently paying a sizeable SCC (stranded cost charge) because of historical
4 investments and commitments made regarding electric generation, that turned out
5 to be greatly in excess of more current market prices.

6 These payments of SCC’s were allowed because the Legislature, Governor,
7 Commission, and many others including the OCA, saw them as a price that had
8 to be paid to satisfy a Rhode Island Federal Court decision in order for the state to
9 move to a competitive marketplace. In that competitive marketplace, generators
10 or suppliers and their stockholders would bear the risk of constructing generation
11 that turned out to be in excess of market costs not customers or ratepayers. Now
12 PSNH is proposing to return to that old paradigm and asking customers to take
13 that risk instead of leaving it to the market and stockholders. There is no
14 evidence in this record that would lead one to conclude that either PSNH or the
15 Commission is better equipped now than in the past to make such decisions better
16 than the market place.

17 **Q6. Under the old or traditional paradigm would a conversion such as the one**
18 **proposed here have been subjected to a process where additional alternatives**
19 **were considered before being approved?**

20 A6. Yes Under the traditional paradigm RSA 387:37 would have required looking at
21 this proposed conversion within a lowest reasonable cost standard taking into
22 account reliability, diversity, safety, environment, and financial stability. This
23 inquiry would have required looking at all alternatives, which was not done in this

1 instance. That is relevant because under the new paradigm RSA 374-F:3 IX
2 indicated 387:37 is still applicable. That section titled “Renewable Energy
3 Resources” says: “Increased future commitments to renewable energy resources
4 should be consistent with the New Hampshire energy policy as set forth in RSA
5 378:37”. That section goes on to conclude, “to encourage emerging technologies,
6 restructuring should allow customers the possibility of choosing to pay a premium
7 for electricity from renewable resources”. To the OCA that means if this
8 conversion is done, its output should be offered as an optional green transition
9 service and paid for by customer choice.

10 **Q7. If PSNH is correct as to what it means to modify a plant, where could this**
11 **ultimately lead.**

12 A7. Basically it could allow PSNH to convert any or all of their generators to other
13 fuel sources, including nuclear facilities and even increase the capacity of the
14 facilities. So that under the concept of modifications PSNH ends up back in the
15 generation business without any least cost planning or perhaps even the concept
16 or prudence or used and useful if the PUC is now required to provide for “cost
17 recovery” before construction (RSA 369-b:3).

18 **Q8. Setting aside the issue of “modification” does the OCA believe that the**
19 **proposed conversion will provide a financial benefit or loss to whomever**
20 **bears that responsibility?**

21 A8. We can’t say for sure. PSNH seems quite certain it will provide a benefit, but at
22 the same time, they are not willing to have stockholders accept all of the
23 risks/gains (See response to OCA-004, Attachment 2). This unwillingness on

1 their part to take the risk they are willing to expose others to is why the
2 Legislature found the prior model had failed.

3 The bottom line of any analysis is the long term value of the Renewable Energy
4 Credits (REC's). The OCA is not willing to gamble PSNH ratepayers' dollars on
5 those credits which could disappear or produce much less value in the future than
6 PSNH finds necessary to break even. Responses to OCA-007 and Staff-029
7 (Attachments 4 and 5) address some of the risks and forecast a break even point
8 for the REC's.

9 The REC markets were artificially developed by the Massachusetts and
10 Connecticut state governments and one that the OCA fears could just as quickly
11 be eliminated by those same state governments. For instance, if the Legislature
12 and Governor in Massachusetts come to believe that the Legislation mandating
13 the REC's is increasing electric rates in Massachusetts by a few mills/kwh, but is
14 doing more to improve air quality in Maine and New Hampshire than
15 Massachusetts, and the payments for the REC's are benefiting NH to the
16 disadvantage of Mass, what is the future of Mass. REC's? Put somewhat
17 differently, would the New Hampshire Legislature pay Massachusetts over an
18 extended period to clean up the air only in Massachusetts and Rhode Island?

19 **Q8. If the Massachusetts and Connecticut laws remain on the books, would you**
20 **expect new eligible generation entrants to enter the market and drive the**
21 **value of the REC's down?**

1 A8. Yes, or else the goal of the Legislation to increase eligible generation would not
2 be attained. The law is in fact designed to have precisely the effect of driving
3 down the value of the REC's.

4 **Q9. Has PSNH conducted risk analysis on the long term existence and value of**
5 **the REC's?**

6 A9. The company responded to a number of data requests seeking that type of
7 information from the Independent Power Producers. I have included those
8 responses to IPP-031 through 034 as Attachment 6. In my opinion, PSNH has not
9 conducted a due diligence investigation in this area.

10 **Q10. Have you done any sensitivity analysis assuming different REC values?**

11 A10. Yes, but only order of magnitude ones. For instance, based on OCA-012, at a
12 90% capacity factor, and a \$30 REC value through 2020, and a 9% discount rate
13 the NPV of the conversion is a plus \$26 million. However at a \$10 REC the NPV
14 goes to a negative \$30 million. I only point this out to again stress how critical
15 the REC's are to the viability of the conversion.

16 **Q11. Under PSNH's proposal for how to finance the conversion will their**
17 **stockholders see a multimillion dollar annual increase in earnings no matter**
18 **whether the conversion benefits ratepayers or not?**

19 A11. Yes. This is made clear in response IPP-010, page 7 of the presentation made to
20 the Northeast Utilities Board by Gary Long on August 1, 2003 supporting the
21 Schiller conversion (Attachment 7).

22 **Q12. Does the OCA place any value on the benefits this conversion might have on**
23 **the environment and the NH wood industry?**

1 A12. RSA 369-B:3-a establishes that the measurement standard is “the public interest
2 of retail customers of PSNH”. However not having precedent for valuing such for
3 retail customers of PSNH beyond that already captured in PSNH’s analysis in
4 accordance with existing environmental emissions laws or the principles set forth
5 in RSA 374-F:3, the OCA finds no reason to take those issues into further
6 consideration beyond existing statutes.

7 **Q13. Would this plant conversion help the NH wood industry?**

8 A13. That is unknown. Will the wood come from NH, Maine, Mass.? What type of
9 wood? And if the demand drives up wood prices, will the result be that once the
10 rate orders for the existing NH wood plants expire will they shut down due to
11 higher wood prices?

12 **Q14. Is a NH wood industry in the public interest of retail customers, if it required
13 a subsidy to exist?**

14 A14. No more so than any other NH industry. It is not the role of this Commission to
15 pick winners and losers.

16 **Q15. Has this proposed conversion been discussed with the OCA Advisory Board?**

17 A15. Yes, it has. And the Board believes that ratepayers should not bear any of the
18 risks of the proposed conversion.

19

20 **Q16. Does this complete your testimony?**

21 A16. Yes.

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